

VZCZCXRO1095
PP RUEHCN RUEHGH
DE RUEHBJ #0364/01 0420910
ZNR UUUUU ZZH
P 110910Z FEB 10
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC PRIORITY 8081
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 BEIJING 000364

SENSITIVE
SIPDIS

STATE PASS USTR

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [CH](#)

SUBJECT: MOFCOM OFFICIAL ON EXPORT CONTROLS, MARKET ECONOMY STATUS,
INDIGENOUS INNOVATION, CFIUS

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1. (SBU) SUMMARY: China is seeking "equal treatment" by the United States at the Strategic and Economic Dialogue (S&ED) and Joint Commission on Commerce and Trade (JCCT), Ministry of Commerce (MOFCOM) Department of American and Oceania Affairs Director General He Ning told an interagency team of Treasury, State, Commerce and USTR officials in a January 25 meeting. He highlighted Chinese concerns about U.S. export controls on high-tech goods to China and U.S. refusal to grant market economy status to the PRC, commenting that the S&ED and JCCT both offered useful mechanisms for addressing these issues. He argued that China's indigenous innovation policies were not intended to shut the door to foreign investment and would not run counter to WTO rules. DG He also criticized a recent CFIUS decision involving First Gold, rejected U.S. calls for RMB appreciation, and expressed skepticism that American consumers would not "return to their old ways." END SUMMARY.

S&ED and JCCT: China Seeking "Equal Treatment"

2. (SBU) DG He stressed that China wanted to be treated equally, citing the issues of U.S. export controls and China's market economy status as two particular issues of concern for China. He said that the JCCT and S&ED were both effective mechanisms for "improving the trade and investment environment" and for addressing the issues of export controls and market economy status "from different angles." The JCCT offered a useful mechanism for more detailed, technical discussions of these issues, while the S&ED provided an appropriate forum for more long-term, general and strategic discussions. He commented that treating each other equally in dealing with differences would result in fewer people in both countries advocating for more restrictions on trade and investment.

Export Controls

3. (SBU) DG He said that U.S. restrictions on the export of high-tech goods to China made the trade imbalance "more serious" and raised Chinese concerns about unequal treatment by the United States. Treasury Department Senior Coordinator for China Affairs David Loevinger responded that, while the issue of export controls was generally discussed by U.S. and Chinese economic agencies, the underlying issue was national security and nonproliferation concerns. Noting that the military and other forces had a significant influence on the issue but had not usually been part of the dialogue with the Chinese economic ministries, Loevinger said that the S&ED could be an opportunity to bring these agencies into the discussion. Assistant USTR Tim Stratford commented that the United States would need to have internal discussions and consult with the Department of Defense before formally proposing that the military or other agencies take part in discussions with the Chinese about export controls. DG He responded that China was open to

discussing "any constructive proposal."

Market Economy Status

14. (SBU) DG He said that China had raised the issue of market economy status at the last round of JCCT talks but "did not see much movement" on the issue. He complained that U.S. refusal to grant market economy status resulted in discrimination against China because it faced less favorable procedures for anti-dumping cases. According to He, China was not necessarily opposed to U.S. countervailing duties and anti-dumping measures but was concerned that the United States was not treating China equally in adopting such measures.

Indigenous Innovation and Services Sector

15. (SBU) Loevinger said that the United States was interested in using the S&ED Economic Track to discuss trade and investment issues, including indigenous innovation and Chinese efforts to promote the development of its services sector. He expressed U.S. interest in better understanding China's indigenous innovation policies, commenting that the United States shared China's desire to promote R&D and used government policies and incentives to promote R&D. While noting that a small number of such policies treated foreign companies differently than U.S. companies, Loevinger stressed that foreign investors could take advantage of most U.S. policies to promote R&D. He also urged the further development of China's labor-intensive, job-creating services sector as an important component of rebalancing.

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16. (SBU) DG He indicated that the Ministry of Science and Technology (MOST) did not intend for its indigenous innovation policies to shut the door to foreign investment. He said that MOST understood WTO principles and did not want its policies to run counter to WTO rules. Regarding China's services sector, DG He said that MOFCOM supported the development of the services sector but played a limited role on the issue because other agencies took the lead in overseeing China's service industries.

Chinese Investment in the United States

17. (SBU) DG He emphasized the importance of transparency and fairness for Chinese investments in the United States, including on cases that fall under Committee on Foreign Investment in the United States (CFIUS) review. Raising the recent First Gold case, he asserted that the opaque and "random" reasoning for rejecting the investment had sent a bad signal to Chinese investors, who feel discriminated against. Loevinger responded that only a very small fraction of Chinese investments in the United States come under CFIUS review and most are approved. In the case of the few rejected cases, national security concerns typically preclude a detailed explanation of the rationale behind the determination.

18. (SBU) Loevinger raised the prospect of using the next S&ED to highlight mutually beneficial Chinese investments in the U.S. to increase awareness of the value of the economic relationship on both sides. He Ning stated that this idea was worth considering, but that any U.S. presentation along these lines would have to be "credible and convincing," otherwise it would likely appear disingenuous to the Chinese.

Consumption in the United States

19. (SBU) In response to hearing Loevinger describe the depressed consumption situation in the United States for the foreseeable future and the unlikelihood of the U.S. being able to drive future Chinese economic growth, He Ning expressed skepticism that U.S. consumers would not "go back to their old ways." Loevinger concluded the meeting by sharing a graph that demonstrated rising U.S. savings and falling net worth.

